

economic trends

January 2013

Economic activity shifts to households entering 2013

Alberta's economic activity has returned to a more sustainable pace through the latter part of 2012. Business indicators have moderated while household sector activity continued to expand at a solid rate.

Global Economy

Fiscal cliff avoided for now

Markets reacted positively to the partial resolution of the fiscal cliff that was passed by US Congress on January 1st. Under the agreement, taxes will increase on high-earning Americans, and the payroll tax will be hiked for all wage earners. On the expenditure side, extended unemployment benefits were renewed for another year, while the "sequestration" cuts to defense and other discretionary spending were put off until March 1.

The stage is now set for a series of fiscal battles over the coming months. First, legislators will need agree to the aforementioned sequestration cuts, second, pass a new Continuing Budget Resolution before the end of March, and lastly, extend the debt ceiling by May. Until these issues are resolved, fiscal uncertainty will weigh on the economy and financial markets. In the wake of the 2011 debt ceiling debate, markets plunged and volatility spiked.

Key Indicators

All indicators seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	December	2,165	1.5%
Unemployment Rate	December	4.5%	-0.4 p.p.
CPI Inflation	December	0.0%	-2.9 p.p.
Retail Sales	November	\$5.9B	+4.4%
Housing Starts (annualized)	December	29,952	+4.7%
Rigs Drilling (unadjusted)	January, 2013	368	-8.2%
Manufacturing Shipments	November	\$6.1B	6.5%
Exports (unadjusted)	November	\$7.6B	-3.2%

Source: Statistics Canada, CAODC, CMHC. p.p. = percentage points.

Good news in the US housing market

The US housing market continues to show signs of improvement, a positive sign for Alberta's forest products sector. December's data releases capped off a strong 2012 for the housing sector that saw annual increases in housing starts (+28%), building permits (+29%), and sales of new (+20%) and existing homes (+9%). Inventories of unsold homes had exploded with the raft of foreclosures following the bursting of the US housing bubble, but have since moderated. House prices have started to increase, rising for 10 consecutive months through November, the longest streak of positive gains since 2006.

Chinese economy shows signs of momentum

Economic growth in China picked up in the fourth quarter to 7.9%, up from 7.4% in Q3. This was the first time in 8 quarters that growth accelerated. The uptick in growth follows a succession of stimulus efforts by Chinese authorities. Expansion was aided by strong exports in December, which were 14.1% higher than a year ago thanks to increased exports to the US and other Asian countries. The increase in China's exports, and a return to expansion of its Purchasing Managers' Index may indicate that global demand is gaining momentum.

Business Sector

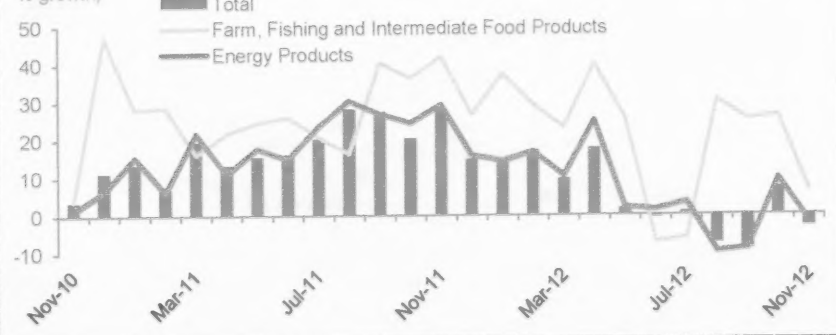
Export growth softens

Alberta merchandise exports have now tracked below the previous year's level in three of the past four reported months. November's 3.2% year-over-year decrease was mainly due to energy product shipments, though declines were seen in most categories. Continued operational issues at major oil sands plants and on major pipelines, combined with maintenance at some US refineries negatively impacted Alberta oil shipments. However, the main contributor to the lower export value was a US\$10.43 per barrel decline in the price of WTI when compared to November 2011.

In the manufacturing sector, growth in shipments has trended downward since March. In November, shipments fell on

Alberta Export Growth

(year/year % growth)



Source: Statistics Canada

a year-over-year basis for the first time in almost three years. Falling petroleum & coal and chemical product shipments, the two largest manufacturing categories, have mainly contributed to the recent moderation in sales growth. On a positive note, wood product shipments have mirrored the recovery in lumber production, reaching their highest level since July 2007.

Lumber production posts strong gain

The improvement in the US housing market is having a positive impact on Alberta lumber producers. Following a decline in 2011, lumber production has rebounded sharply, posting year-over-year growth in nine of the first eleven months in 2012. In the first eleven months of 2012, lumber production was up a strong 7.5% over the same period in 2011.

Farm cash receipts climb

Alberta farmers' revenue continued to improve in the third quarter of 2012. Farm cash receipts jumped 8.8% from the same quarter in 2011. The increase was mainly driven by gains in crops receipts, reflecting increases in production and prices.

Household Sector

Pace of job growth eases to end 2012

Following five straight months of job gains, Alberta lost 6,100 jobs in December. Year-over-year employment growth continued to moderate over the second half of 2012, with December's 1.5% increase being the lowest in two years. After spiking in the first half of the year, employment in the natural resources sector has trended downward on a monthly basis over the past four months. For the first time in sixteen months, fewer people are employed in the industry compared to the previous year (see chart). December's employment dip helped lift the unemployment rate from 4.2% to 4.5%, still lowest in Canada.

Despite some softening of growth to end the year, Alberta still led all the provinces in job growth for 2012, adding 55,500 jobs and growing by 2.7%.

Consumer spending remains resilient

Rising in-migration and a strong labour market continue to support spending at the tills. However, retail sales growth has moderated from its lofty pace set earlier last year. On a year-over-year basis, sales growth eased to 4.4% in November, the slowest growth since March 2011. The moderation was expected

The impact of the XL Foods plant shutdown on economic indicators

XL Foods, one of two meat packing plants in Alberta, was shutdown in late September and remained closed through most of October. Production resumed in late October, but exports of meat products from the plant to the US only recommenced in December.

The plant closure affected Alberta's manufacturing shipments and merchandise exports. Food manufacturing fell to the lowest level in two years in October even with the second meat packing plant in the province, located in High River, added processing capacity to offset the XL closure. As production resumed in late October, food manufacturing partly recovered in November but was still down from a year ago. With processing capacity limited, Alberta ranchers had to find alternative markets for their maturing livestock. As a result, live animal exports jumped 82.7% in October from the same month in 2011. Live animal exports fell back to more normal levels in November as XL Foods resumed production.

because of the robust growth in the fall 2011. Sales at car dealers, clothing stores, and gasoline stations continue to fuel the year-over-year growth albeit at a somewhat slower pace. Alberta's year-to-date retail sales growth in 2012 remains the highest among the provinces at 8.1%, nearly triple the Canadian average.

Earnings continue to grow as inflation cools

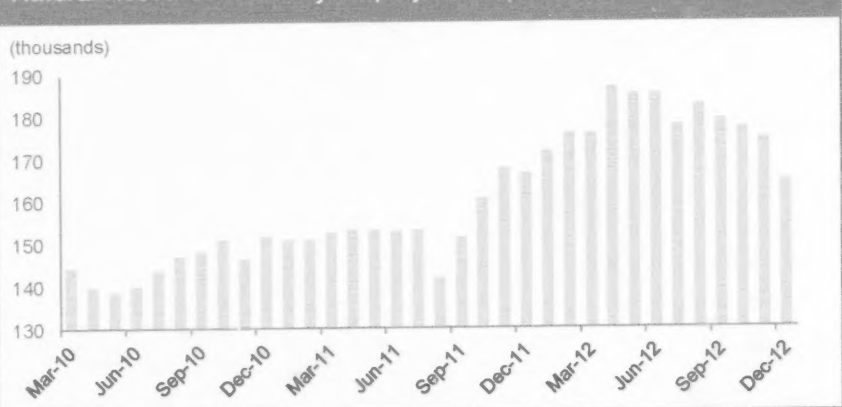
On average, Albertan's paychecks continue to grow faster than the prices they pay for goods and services. Alberta average weekly earnings (AWE) were still 3.4% higher than the same month a year ago. After dipping to 1.2% in May, earnings growth has remained above 3%, fueled in part by wage gains in the mining, oil and gas and construction industries.

Inflation remains subdued in Alberta. December's inflation rate came in flat at 0.0% indicating that overall consumer prices did not change compared to last December. Alberta's inflation rate has steadily fallen through the winter, in large part due to falling prices for energy, particularly electricity. For 2012, consumer price inflation averaged 1.1%, sharing the lowest rate in the country with British Columbia.

Housing market closes the year on a positive note

Housing starts registered 29,952 SAAR units in December, an increase of 4.7% over December 2011. Alberta saw 33,396 new units started in 2012, an increase of 29.9% over 2011, contributing to a rise in construction employment. The resale market continued its upward trend in December as the sales to new listing ratio once again flirted with sellers' territory while the average home price jumped by 4.6% over last year, the largest uptick since July 2010. Strong levels of in-migration has contributed to recent gains in the housing market.

Natural Resource* Industry Employment in Alberta



Source: Statistics Canada. *Refers to Statistics Canada employment category of Forestry, Fishing, Mining, Oil & Gas

2012 Year in Review

In a year marked by global uncertainty, the Alberta economy continued to outperform its peers. Growth gradually transitioned from the business sector to households last year, led by the strongest job gains in the country.

Global Economy

EU debt crisis takes its economic toll

European leaders took tentative steps in 2012 towards resolving the ongoing debt crisis. However, the real effects of the debt crisis Eurozone were felt through record high unemployment and a contraction in GDP.

Moves by the European Central Bank, mainly the plan to buy unlimited quantities of troubled Eurozone debt in September, follows through on ECB President Mario Draghi's promise to do "whatever it takes to preserve the Euro." The efforts of the ECB, together with the Greek bailout, have helped to lower yields of troubled sovereigns and keep the crisis somewhat contained.

US economy sends mixed messages

Amid fiscal and economic uncertainty, 2012 had signs of optimism and pessimism south of the border. On the bright side, growth returned to the US housing market, the unemployment rate fell below 8%, and Congress managed to avert the fiscal cliff. Conversely, the housing market is only a shadow of what it was in 2006, the unemployment rate fell in part because workers retired or stopped looking for work, and Congress still has to raise the debt ceiling, come up with a new budget, and rein in the deficit. The case could be made for 2013 being the best year for the US economy since the recession, particularly given the recent improvement in the housing market.

Soft landing for China

China's economic growth had been slowing since 2010, but now appears set to rebound. Real GDP growth in the fourth quarter of 2012 increased

by 0.5 percentage points to 7.9% on a year-over-year basis, the largest acceleration in over 2 years. Similarly, the Purchasing Managers' Index and goods exports reported higher readings near the end of the year. If the recent momentum is sustained, it could be good news for a global economy that is increasingly driven by emerging markets.

Canada's economy hurt by oil price drop

Canadian economic growth remained tepid last year, largely due to declines in exports. Energy

exports, after adding substantially to growth in the first quarter, suffered large declines as oil exports faced steep discounts when compared

to the price of imported oil. This led to a deterioration in Canada's terms of trade, or the difference between the price received for exports versus the price paid for imports. While commodity prices drifted lower, the exchange rate stayed around parity for most of the year. Foreign investors sought a safe haven amid global uncertainty, increasing the demand for Canadian investments.

Warnings from the Bank of Canada that it may raise interest rates earlier than expected to slow the growth of household debt also lent support to the dollar.

Alberta Business Sector

Oil prices dip

After a strong start to the year, North American oil prices dropped in May and stayed well below world prices in 2012. West Texas Intermediate (WTI) spent much of the year in the \$US85 - 95/bbl range, averaging \$US94.15/bbl in 2012.

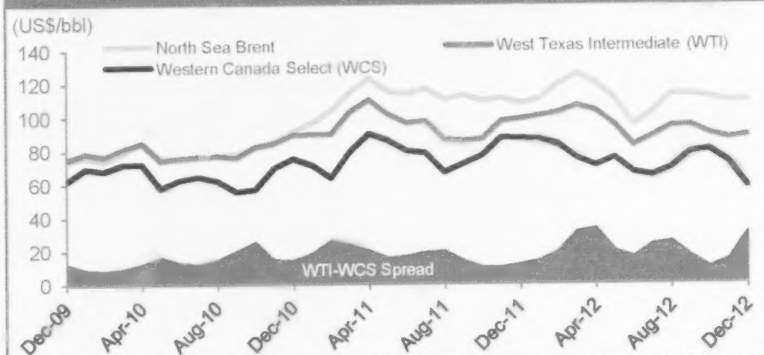
In a year marked by global uncertainty, the Alberta economy continued to perform well

When compared to the world benchmark oil price, North Sea Brent, which averaged \$US111.70/bbl in 2012, the glut of landlocked oil in the US translated into a discount of \$US17.55/bbl off of WTI.

Alberta oil faces steep discounts

Increased production from both Alberta's oil sands and US shale oil, combined with refinery outages and pipeline issues,

Chart 1: World Oil Prices



Source: Alberta Energy

in focus

resulted in historically steep discounts between the price of Alberta bitumen blends (e.g. Western Canada Select) and the WTI price.

The lower price for Alberta oil impacted corporate profits last year and some oil sands producers signalled a more cautious approach to investment.

Output growth eases through 2012

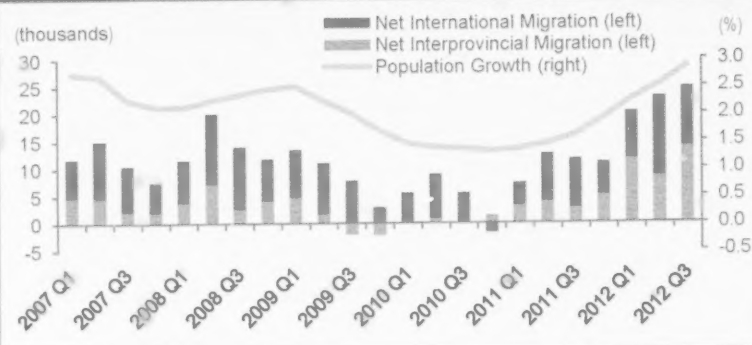
Following an impressive start to 2012, Alberta's exports and manufacturing shipments slowed in the second half of the year, mainly on the effects of lower energy prices. Also, drilling activity closed 2012 on a weaker note. After posting year-over-year growth in the first quarter of 2012, rigs drilling finished the year below 2011 levels. Nominal spending on non-residential building construction was up slightly in 2012, with strong gains from the industrial and commercial sectors largely offset by weakness in institutional/government construction.

Alberta Household Sector

Alberta's job growth leads the country
Alberta's labour market again led all provinces in job growth in 2012. Last year's 2.7% increase was more than double the national rate. The 55,500 jobs added in Alberta in 2012 were all full-time positions. Goods-producing industries produced the bulk of the job gains, and the public sector gained jobs for the first time in three years. Year-over-year growth, however, trended lower over 2012, ending the year at 1.5% in December.

As a result of last year's job gains, Alberta's annual unemployment rate came in at 4.6% for 2012, down from

Chart 2: Alberta Population Growth



Source: Statistics Canada

2011's 5.5% and well below Canada's 2012 rate of 7.2%.

Migrants lured by jobs

Alberta's population grew by a robust 2.5% during the 2012 Census year (as of July 1st). Throughout the year, Alberta attracted new residents due to a strengthening labour market and high wages. Net inter-provincial migration to Alberta returned to near record highs of over 28,000, while net international migration reached just over 37,000.

Housing market rebounds

Lifted by strong inflows of migrants, Alberta's new home starts reached levels not seen in five years in 2012. Housing starts hit 33,396, up a strong 29.9% from 2011 levels.

Alberta's resale housing market approached sellers' territory last year, bucking the national cooling trend (see chart 3). Sales jumped to the highest level in five years, supported

by a healthy labour market, low interest rates and strong migration. Along with the increased activity, the average home price in Alberta reached a new record last year hitting \$361,970.

Earnings continue to grow

Alberta's average weekly earnings (AWE) are on track to increase by roughly 3.5% in 2012. This is down from 2011's robust growth of 4.6% but still well above 2012's CPI inflation rate of 1.1%. This suggests that, on average, consumers saw an improvement in their purchasing power. Last year's growth in AWE was fueled mainly by gains in finance and insurance, construction as well as mining, oil & gas.

Inflation remains subdued

Falling energy prices, especially electricity, played a significant role in keeping Alberta's inflation low through 2012. Alberta shared the lowest annual consumer price inflation reading with British Columbia at 1.1%. Price gains for services remained close to historical averages, whereas price changes for most goods, including food and energy, were flat or negative.

Consumer spending adds to growth

Fuelled by wage gains and strong population growth, consumers in Alberta likely led the country in 2012 with retail sales growth of over 8% in 2012. This impressive growth is largely due to high vehicle sales as well as purchases from clothing stores and gasoline stations.

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Chart 3: Resale Housing Market (sales to new listing ratio)



Source: Canadian Real Estate Association